

ESSEX COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2008

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Essex Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2007 Election)		
Tim Johnson	President	2009
Blake Jensen	Vice President	2007
Christy Johnson	Board Member	2007
Larry Young	Board Member	2008
Dennis Liljedahl	Board Member	2009
Board of Education (After September 2007 Election)		
Blake Jensen	President	2011
Christy Johnson	Vice President	2011
Tim Johnson	Board Member	2009
Larry Young	Board Member	2008
Dennis Liljedahl	Board Member	2009
School Officials		
Sandra Dop	Superintendent	2008
Gloria McComb	District Secretary/ Treasurer	2008
Sue Seitz	District Attorney	2008

NOTLE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Essex Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Essex Community School District, Essex, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Essex Community School District at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 2, 2009 on our consideration of Essex Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 35 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We

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have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Essex Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2007 (which are not presented here in) and expressed unqualified opinions on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

March 2, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Essex Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,349,264 in fiscal year 2007 to \$2,437,969 in fiscal year 2008, while General Fund expenditures increased from \$2,276,460 in fiscal 2007 to \$2,461,906 in fiscal 2008. This resulted in a decrease in the District's General Fund balance from \$494,946 in fiscal 2007 to \$471,009 in fiscal 2008, a 4.84% decrease from prior year.
- The increase in General Fund revenues was attributable to an increase in state aid revenues in fiscal 2008. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- Overall, the District increased net assets in the governmental activities by \$126,840, and decreased in the business-type activities by \$16,058, respectively.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Essex Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Essex Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Essex Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Essex Community School District Annual Financial Report

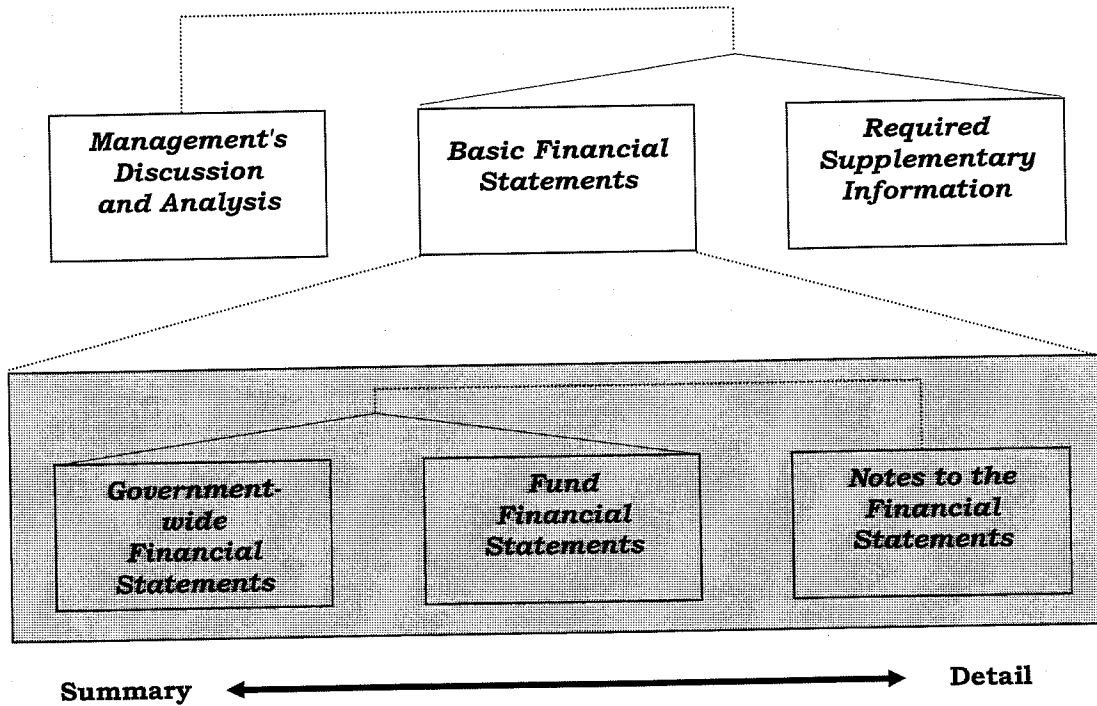


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other entities and the Empowerment Program, whereby the District acts as the fiscal agent.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2008 compared to June 30, 2007.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Current and other assets	\$ 2,628,175	2,216,800	\$ 7,206	24,866	\$ 2,635,381	2,241,666	17.56%
Capital assets	1,444,788	1,492,030	11,326	9,928	1,456,114	1,501,958	-3.05%
Total assets	4,072,963	3,708,830	18,532	34,794	4,091,495	3,743,624	9.29%
Long-term obligations	108,153	278,170	0	0	108,153	278,170	-61.12%
Other liabilities	1,832,571	1,425,261	1,886	2,090	1,834,457	1,427,351	28.52%
Total liabilities	1,940,724	1,703,431	1,886	2,090	1,942,610	1,705,521	13.90%
Net assets:							
Invested in capital assets, net of related debt	1,344,788	1,232,030	11,326	9,928	1,356,114	1,241,958	9.19%
Restricted	216,859	179,308	0	0	216,859	179,308	20.94%
Unrestricted	570,592	594,061	5,320	22,776	575,912	616,837	-6.63%
Total net assets	\$ 2,132,239	2,005,399	\$ 16,646	32,704	\$ 2,148,885	2,038,103	5.44%

The District's combined net assets increased by 5.44% over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased 20.94% compared to prior year.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements- decreased 6.63% from the prior year. This was due to a decrease in the general fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2008 compared to June 30, 2007.

Figure A-4 Changes of Net Assets								
	Governmental Activities		Business-type Activities		Total School District		Total Change	
	2008	2007	2008	2007	2008	2007	2007-08	
Revenues and Transfers:								
Program revenues:								
Charges for services	\$ 292,423	314,025	\$ 57,764	63,132	\$ 350,187	377,157	-7.15%	
Operating grants and contributions and restricted interest	369,483	325,717	59,716	60,609	429,199	386,326	11.10%	
General revenues:								
Local tax	897,313	923,507	0	0	897,313	923,507	-2.84%	
Local option sales and service tax	158,675	165,107	0	0	158,675	165,107	-3.90%	
Unrestricted state grants	1,088,168	1,057,140	0	0	1,088,168	1,057,140	2.94%	
Other general revenues	47,685	59,295	420	653	48,105	59,948	-19.76%	
Transfers	(4,000)	(5,741)	4,000	0	0	(5,741)	100.00%	
Total revenues and transfers	<u>2,849,747</u>	<u>2,839,050</u>	<u>121,900</u>	<u>124,394</u>	<u>2,971,647</u>	<u>2,963,444</u>	<u>0.28%</u>	
Program expenses:								
Governmental activities:								
Instructional	1,708,634	1,586,642	0	0	1,708,634	1,586,642	7.69%	
Support services	824,494	791,773	0	0	824,494	791,773	4.13%	
Non-instructional programs	0	0	137,958	109,648	137,958	109,648	25.82%	
Other expenses	189,779	171,904	0	0	189,779	171,904	10.40%	
Total expenses	<u>2,722,907</u>	<u>2,550,319</u>	<u>137,958</u>	<u>109,648</u>	<u>2,860,865</u>	<u>2,659,967</u>	<u>7.55%</u>	
Change in net assets	126,840	288,731	(16,058)	14,746	110,782	303,477	-63.50%	
Net assets beginning of year	<u>2,005,399</u>	<u>1,716,668</u>	<u>32,704</u>	<u>17,958</u>	<u>2,038,103</u>	<u>1,734,626</u>	<u>17.50%</u>	
Net assets end of year	<u>\$ 2,132,239</u>	<u>2,005,399</u>	<u>\$ 16,646</u>	<u>32,704</u>	<u>\$ 2,148,885</u>	<u>2,038,103</u>	<u>5.44%</u>	

Local tax, local option sales and services tax and unrestricted state grants account for 72.15% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 88.54% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$2,849,747 and expenses were \$2,722,907.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2008	2007	Change 2007-08	2008	2007	Change 2007-08
Instruction	\$ 1,708,634	1,586,642	7.69%	1,134,296	1,031,049	10.01%
Support services	824,494	791,773	4.13%	824,494	791,773	4.13%
Other expenses	189,779	171,904	10.40%	102,211	87,755	16.47%
Totals	<u>\$ 2,722,907</u>	<u>2,550,319</u>	<u>6.77%</u>	<u>2,061,001</u>	<u>1,910,577</u>	<u>7.87%</u>

For the year ended June 30, 2008:

- The cost financed by users of the District's programs was \$292,423.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$369,483.
- The net cost of governmental activities was financed with \$897,313 in local tax, \$158,675 in local option sales and services tax, \$1,088,168 in unrestricted state grants, \$38,818 in interest income and \$8,867 in other revenues.

Business-Type Activities

Revenues of the District's business-type activities were \$121,900 and expenses were \$137,958. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Essex Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$693,767, above last year's ending fund balances of \$690,529.

Governmental Fund Highlights

- The District's General Fund financial position changed from \$494,946 to \$471,009. This was due to the increase in expenditures exceeding the increase in revenues for the year.
- The District's Capital Projects Fund increased \$49,834, to an ending fund balance of \$133,128. This was the result of a decrease in expenditures.
- The Special Revenue, Physical Plant and Equipment Levy fund balance increased \$2,251 to a final fund balance of \$15,794.

Proprietary Funds Highlights

The School Nutrition Fund net assets decreased from \$32,704 at June 30, 2007 to \$16,646 at June 30, 2008.

BUDGETARY HIGHLIGHTS

The District's revenues were \$35,537 less than budgeted revenues, a variance of 1.18%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional programs and other expenditures special function areas due to the timing of disbursements paid at year-end.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had invested \$1.46 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$89,123.

The original cost of the District's capital assets was \$3,232,989. Governmental funds account for \$3,173,530 with the remainder of \$59,459 in the School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled \$3,660 at June 30, 2007, compared to \$2,748 reported at June 30, 2008. This decrease resulted primarily from depreciation expense for the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Land	\$ 4,812	4,812	\$ 0	0	\$ 4,812	4,812	0.00%
Buildings	1,280,267	1,326,191	0	0	1,280,267	1,326,191	-3.46%
Land improvements	2,748	3,660	0	0	2,748	3,660	-24.92%
Machinery and equipment	156,961	157,367	11,326	9,928	168,287	167,295	0.59%
Total	<u>\$ 1,444,788</u>	<u>1,492,030</u>	<u>\$ 11,326</u>	<u>9,928</u>	<u>\$ 1,456,114</u>	<u>1,501,958</u>	<u>-3.05%</u>

Long-Term Debt

At June 30, 2008, the District had \$108,153 in other long-term debt outstanding. This represents a decrease of 61.1% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonded indebtedness payable of \$100,000 at June 30, 2008.

The District had total outstanding early retirement payable from the Special Revenue, Management Levy Fund of \$8,153 at June 30, 2008.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2008	2007	2007-08
General obligation bonds	\$ 100,000	260,000	-61.5%
Early retirement	8,153	18,170	-55.1%
Totals	\$ 108,153	278,170	-61.1%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Increases in health insurance premiums, along with salaries and benefits for the employees is always a concern for the District.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- Certified enrollment decreased by 15.0 students in the 2007-08 year. The District expects enrollment to stay steady in the future years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dr. Sandra Dop, Superintendent, Essex Community School District, 111 Forbes Street, Essex, Iowa, 51638.

BASIC FINANCIAL STATEMENTS

ESSEX COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 703,768	0	703,768
Other	886,540	5,357	891,897
Receivables:			
Property tax:			
Delinquent	13,665	0	13,665
Succeeding year	863,346	0	863,346
Income surtax	102,387	0	102,387
Accounts	41,916	0	41,916
Accrued interest:			
ISCAP(Note 4)	3,023	0	3,023
Due from other governments	13,530	123	13,653
Inventories	0	1,726	1,726
Capital assets, net of accumulated depreciation(Note 5)	1,444,788	11,326	1,456,114
TOTAL ASSETS	4,072,963	18,532	4,091,495
LIABILITIES			
Accounts payable	61,219	64	61,283
Salaries and benefits payable	195,735	748	196,483
Accrued interest payable	550	0	550
ISCAP warrants payable(Note 4)	699,000	0	699,000
ISCAP interest payable(Note 4)	2,951	0	2,951
ISCAP unamortized premium	9,770	0	9,770
Deferred revenue:			
Succeeding year property tax	863,346	0	863,346
Unearned revenue	0	1,074	1,074
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds payable	100,000	0	100,000
Early retirement payable	8,153	0	8,153
TOTAL LIABILITIES	1,940,724	1,886	1,942,610
NET ASSETS			
Invested in capital assets, net of related debt	1,344,788	11,326	1,356,114
Restricted for:			
Salary improvement program	475	0	475
Market factor	780	0	780
Beginning teacher mentoring	999	0	999
Debt service	7,491	0	7,491
Capital projects	133,128	0	133,128
Management levy	28,881	0	28,881
Physical plant and equipment levy	15,794	0	15,794
Other special revenue purposes	29,311	0	29,311
Unrestricted	570,592	5,320	575,912
TOTAL NET ASSETS	\$ 2,132,239	16,646	2,148,885

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
JUNE 30, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
Functions/Programs					
Governmental activities:					
Instruction:					
Regular instruction	\$ 1,331,451	171,199	243,637	(916,615)	0
Special instruction	189,187	1,800	14,925	(172,462)	0
Other instruction	187,996	119,424	23,353	(45,219)	0
	1,708,634	292,423	281,915	(1,134,296)	0
Support services:					
Student services	90,473	0	0	(90,473)	0
Instructional staff services	57,171	0	0	(57,171)	0
Administration services	339,655	0	0	(339,655)	0
Operation and maintenance of plant services	208,058	0	0	(208,058)	0
Transportation services	129,137	0	0	(129,137)	0
	824,494	0	0	(824,494)	0
Other expenditures:					
Facilities acquisitions	47,542	0	0	(47,542)	0
Long-term debt interest	7,833	0	0	(7,833)	0
AEA flowthrough	87,568	0	87,568	0	0
Depreciation(unallocated)*	46,836	0	0	(46,836)	0
	189,779	0	87,568	(102,211)	0
Total governmental activities	2,722,907	292,423	369,483	(2,061,001)	0
Business-Type activities:					
Non-instructional programs:					
Nutrition services	137,958	57,764	59,716	0	(20,478)
Total	\$ 2,860,865	350,187	429,199	(2,061,001)	(20,478)
General Revenues and Transfers:					
General revenues					
Local tax for:					
General purposes				\$ 805,029	0
Capital outlay				17,423	0
Debt service				74,861	0
Local option sales and services tax				158,675	0
Unrestricted state grants				1,088,168	0
Unrestricted investment earnings				38,818	420
Other general revenues				8,867	0
Transfers				(4,000)	4,000
Total general revenues and transfers				2,187,841	4,420
Changes in net assets				126,840	(16,058)
Net assets beginning of year				2,005,399	32,704
Net assets end of year				\$ 2,132,239	16,646

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General	Other Nonmajor Governmental Funds	Total
ASSETS			
Cash and pooled investments:			
ISCAP (Note 4)	\$ 703,768	0	703,768
Other	676,159	210,381	886,540
Receivables:			
Property tax			
Delinquent	11,211	2,454	13,665
Succeeding year	709,863	153,483	863,346
Income surtax	102,387	0	102,387
Accounts	1,240	40,676	41,916
Accrued interest:			
ISCAP (Note 4)	3,023	0	3,023
Due from other governments	13,530	0	13,530
TOTAL ASSETS	\$ 2,221,181	406,994	2,628,175
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 30,466	30,753	61,219
Salaries and benefits payable	195,735	0	195,735
ISCAP warrants payable (Note 4)	699,000	0	699,000
ISCAP interest payable (Note 4)	2,951	0	2,951
ISCAP unamortized premium	9,770	0	9,770
Deferred revenue:			
Succeeding year property tax	709,863	153,483	863,346
Income surtax	102,387	0	102,387
Total liabilities	1,750,172	184,236	1,934,408
Fund balances:			
Reserved for:			
Beginning teacher mentoring	999	0	999
Salary improvement program	475	0	475
Market factor	780	0	780
Debt service	0	7,491	7,491
Unreserved:			
General	468,755	0	468,755
Capital projects	0	133,128	133,128
Management levy	0	37,034	37,034
Physical plant and equipment levy	0	15,794	15,794
Other special revenue purposes	0	29,311	29,311
Total fund balances	471,009	222,758	693,767
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,221,181	406,994	2,628,175

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008

Total fund balances of governmental funds (page 15)	\$ 693,767
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	1,444,788
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	102,387
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(550)
Long-term liabilities, including general obligation bonds payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(108,153)</u>
Net assets of governmental activites (page 13)	<u><u>\$ 2,132,239</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	General	Other Nonmajor Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 755,122	142,191	897,313
Local option sales and service tax	0	158,675	158,675
Tuition	172,999	0	172,999
Other	73,236	114,767	188,003
Intermediate sources	2,459	0	2,459
State sources	1,354,298	145	1,354,443
Federal sources	79,855	0	79,855
Total revenues	<u>2,437,969</u>	<u>415,778</u>	<u>2,853,747</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	1,334,713	25,740	1,360,453
Special instruction	189,187	0	189,187
Other instruction	73,022	113,302	186,324
	<u>1,596,922</u>	<u>139,042</u>	<u>1,735,964</u>
Support services:			
Student services	90,473	0	90,473
Instructional staff services	59,012	0	59,012
Administration services	332,309	6,937	339,246
Operation and maintenance of plant services	186,941	21,797	208,738
Transportation services	104,681	4,625	109,306
	<u>773,416</u>	<u>33,359</u>	<u>806,775</u>
Other expenditures:			
Facilities acquisitions	0	47,542	47,542
Long-term debt:			
Principal	0	160,000	160,000
Interest and fiscal charges	0	8,660	8,660
AEA flowthrough	87,568	0	87,568
	<u>87,568</u>	<u>216,202</u>	<u>303,770</u>
Total expenditures	<u>2,457,906</u>	<u>388,603</u>	<u>2,846,509</u>
Excess(deficiency)of revenues over (under)expenditures	(19,937)	27,175	7,238
Other financing sources(uses):			
Transfer in	0	70,000	70,000
Transfer out	(4,000)	(70,000)	(74,000)
Total other financing sources(uses)	<u>(4,000)</u>	<u>0</u>	<u>(4,000)</u>
Net change in fund balances	(23,937)	27,175	3,238
Fund balance beginning of year	494,946	195,583	690,529
Fund balance end of year	<u>\$ 471,009</u>	<u>222,758</u>	<u>693,767</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds(page 17)	\$ 3,238
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:	
Depreciation expense	\$ (86,710)
Capital outlay expenditures	39,468 (47,242)
Income surtax account receivable is not available to finance require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
Early Retirement	10,017
Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.	
	160,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	
	827
Changes in net assets of governmental activities(page 14)	\$ 126,840

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008

	<u>School</u> <u>Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 5,357
Due from other governments	123
Inventories	1,726
Capital assets, net of accumulated depreciation(Note 5)	<u>11,326</u>
Total assets	<u>18,532</u>
LIABILITIES	
Accounts payable	64
Salaries and benefits payable	748
Unearned revenue	<u>1,074</u>
Total liabilities	<u>1,886</u>
NET ASSETS	
Invested in capital assets	11,326
Unrestricted	<u>5,320</u>
Total net assets	<u><u>\$ 16,646</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2008

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 57,764
TOTAL OPERATING REVENUES	<u>57,764</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	45,673
Benefits	6,521
Services	1,540
Supplies	81,451
Depreciation	2,413
Other	360
TOTAL OPERATING EXPENSES	<u>137,958</u>
OPERATING LOSS	<u>(80,194)</u>
NON-OPERATING REVENUES:	
State sources	1,489
Federal sources	58,227
Interest income	420
TOTAL NON-OPERATING REVENUES	<u>60,136</u>
Loss before other financing sources	(20,058)
Other financing sources:	
Transfer In	<u>4,000</u>
Changes in net assets	(16,058)
Net assets beginning of year	<u>32,704</u>
Net assets end of year	<u><u>\$ 16,646</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

EXHIBIT I

ESSEX COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2008

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 56,892
Cash received from miscellaneous operating activities	1,947
Cash payments to employees for services	(51,446)
Cash payments to suppliers for goods or services	(77,480)
Net cash used in operating activities	<u>(70,087)</u>
Cash flows from non-capital financing activities:	
State grants received	1,489
Federal grants received	50,044
Net cash provided by non-capital financing activities	<u>51,533</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	(3,811)
Transfer In from General Fund	4,000
Net cash used in capital and related financing activities	<u>189</u>
Cash flows from investing activities:	
Interest on investments	<u>420</u>
Net decrease in cash and cash equivalents	(17,945)
Cash and cash equivalents at beginning of year	<u>23,302</u>
Cash and cash equivalents at end of year	<u>\$ 5,357</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (80,194)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	8,060
Depreciation	2,413
Increase in inventories	(517)
Decrease in accounts receivable	355
Decrease in accounts payable	(1,672)
Increase in salaries and benefits payable	748
Increase in unearned revenue	720
Net cash used in operating activities	<u>\$ (70,087)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 5,357</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2008, the District received Federal commodities valued at \$8,060.

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008

	Private Purpose Trust Scholarship	Agency
ASSETS		
Cash and pooled investments	\$ 53,839	3,483
LIABILITIES		
Due to other groups	0	3,483
NET ASSETS		
Restricted for scholarships	45,000	0
Unrestricted	8,839	0
	<u>\$ 53,839</u>	<u>0</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2008

	Private Purpose Trust Scholarship
Additions	
Local sources:	
Gifts and contributions	\$ 348
Interest income	2,704
Total additions	<u>3,052</u>
Deductions	
Instruction:	
Scholarships awarded	<u>3,300</u>
Change in net assets	(248)
Net assets beginning of year	<u>54,087</u>
Net assets end of year	<u>\$ 53,839</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(1) Summary of Significant Accounting Policies

The Essex Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Essex, Iowa, and the predominate agricultural territory in a portion of Page and Montgomery Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Essex Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Essex Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Page and Montgomery County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The District reports the following major proprietary fund:

The District's proprietary fund is the School Nutrition Fund and Resale Fund, which are used to account for the District's food service operations and resale operations.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements, which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private

organizations, and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operation.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses

generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Life (In Years)
Buildings	50 years
Land improvements	20-50 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used

to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year, the District adopted three budget amendments to allocate expenses of \$36,375 from the total support services and non-instructional program functional areas to the other expenditures functional area. However, during the year disbursements in the non-instructional programs and other expenditures functional areas exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2008 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District's investments at June 30, 2008, are as follows:

Type	Amortized Cost
Diversified Portfolio	\$ 612,501

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Transfers

The detail of transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 70,000
Nutrition	General	4,000
Total		\$ 74,000

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

The General Fund transferred to the School Nutrition Fund for deficit relief.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2008 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2007-08B	1/23/08	1/23/09	\$ 188,603	2,828	188,000	2,801
2008-09A	6/26/08	6/25/09	515,165	195	511,000	150
Total			\$ 703,768	3,023	699,000	2,951

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The District did not have any ISCAP advance activity in the General Fund for the year ended June 30, 2008.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2007-08B	3.750%	3.451%
2008-09A	3.500%	3.469%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 4,812	0	0	4,812
Total capital assets not being depreciated	4,812	0	0	4,812
Capital assets being depreciated:				
Buildings	2,366,237	0	0	2,366,237
Land improvements	157,499	0	0	157,499
Machinery and equipment	608,388	39,468	2,874	644,982
Total capital assets being depreciated	3,132,124	39,468	2,874	3,168,718
Less accumulated depreciation for:				
Buildings	1,040,046	45,924	0	1,085,970
Land improvements	153,839	912	0	154,751
Machinery and equipment	451,021	39,874	2,874	488,021
Total accumulated depreciation	1,644,906	86,710	2,874	1,728,742
Total capital assets being depreciated, net	1,487,218	(47,242)	0	1,439,976
Governmental activities capital assets, net	\$ 1,492,030	(47,242)	0	1,444,788

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 57,616	3,811	1,968	59,459
Less accumulated depreciation	47,688	2,413	1,968	48,133
Business-type activities capital assets, net	\$ 9,928	1,398	0	11,326

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 17,658
Other	1,672
Support services:	
Instructional support	204
Administration Services	409
Operation and maintenance of plant	100
Transportation	19,831
	39,874
Unallocated depreciation	46,836
Total governmental activities depreciation expense	\$ 86,710
Business-type activities:	
Food services	\$ 2,413

(6) Long-Term Liabilities

A summary of changes in long-term debt for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 260,000	0	160,000	100,000	100,000
Early retirement	18,170	1,573	11,590	8,153	8,153
Total	\$ 278,170	1,573	171,590	108,153	108,153

General Obligation Bonds Payable

Details of the District's June 30, 2008 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of September, 2002			
	Interest Rates	Principal	Interest	Total
2009	3.30	% \$ 100,000	3,300	103,300

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-nine and must have completed twenty-five years of continuous service to the District. Employees must complete an application, which is subject to approval by the Board of Education. Early retirement benefits paid during the year ended June 30, 2008, totaled \$11,590. A liability has been

recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007 and 2006. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$85,914, \$74,509, and \$68,875 respectively, equal to the required contributions for each year.

(8) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2008 were \$14,781.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$87,568 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(10) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2008, expenditures in the non-instructional programs and other expenditures functions exceeded the amounts budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

ESSEX COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2008

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 1,416,991	58,184	1,475,175	1,520,690	1,520,690	(45,515)
Intermediate sources	2,459	0	2,459	0	0	2,459
State sources	1,354,442	1,489	1,355,931	1,342,494	1,342,494	13,437
Federal sources	79,855	58,227	138,082	144,000	144,000	(5,918)
Total revenues	2,853,747	117,900	2,971,647	3,007,184	3,007,184	(35,537)
Expenditures:						
Instruction	1,735,964	0	1,735,964	2,129,284	2,129,284	393,320
Support services	806,775	0	806,775	1,086,226	1,067,909	261,134
Non-instructional programs	0	137,958	137,958	148,058	130,000	(7,958)
Other expenditures	303,770	0	303,770	258,625	295,000	(8,770)
Total expenditures	2,846,509	137,958	2,984,467	3,622,193	3,622,193	637,726
Excess(deficiency) of revenues over(under) expenditures	7,238	(20,058)	(12,820)	(615,009)	(615,009)	602,189
Other financing sources, net	(4,000)	4,000	0	1,000	1,000	(1,000)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	3,238	(16,058)	(12,820)	(614,009)	(614,009)	601,189
Balance beginning of year	690,529	32,704	723,233	621,769	621,769	101,464
Balance end of year	\$ 693,767	16,646	710,413	7,760	7,760	702,653

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2008

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2008, the District adopted three budget amendments to allocate expenses of \$36,375 from the total support services and non-instructional program areas to the other expenditures functional area. However, during the year the District disbursements in the non-instructional programs and other expenditures functional areas exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

ESSEX COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008

	Special Revenue Funds						Total
	Manage-	Physical		Total			Other
	ment	Plant &	Student	Special	Capital	Debt	Nonmajor
	Levy	Equipment	Activity	Revenue	Projects	Service	Governmental
		Levy					Funds
ASSETS							
Cash and pooled investments	\$ 36,173	16,964	30,828	83,965	120,217	6,199	210,381
Receivables:							
Property tax:							
Current year delinquent	861	301	0	1,162	0	1,292	2,454
Succeeding year	70,000	19,783	0	89,783	0	63,700	153,483
Accounts	0	0	160	160	40,516	0	40,676
TOTAL ASSETS	\$ 107,034	37,048	30,988	175,070	160,733	71,191	406,994
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 0	1,471	1,677	3,148	27,605	0	30,753
Deferred revenue:							
Succeeding year property tax	70,000	19,783	0	89,783	0	63,700	153,483
	70,000	21,254	1,677	92,931	27,605	63,700	184,236
Fund balances:							
Reserved:							
Debt service	0	0	0	0	0	7,491	7,491
Unreserved:							
Undesignated	37,034	15,794	29,311	82,139	133,128	0	215,267
Total fund balances	37,034	15,794	29,311	82,139	133,128	7,491	222,758
TOTAL LIABILITIES AND FUND BALANCES	\$ 107,034	37,048	30,988	175,070	160,733	71,191	406,994

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 OTHER NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2008

	Special Revenue Funds						Total Other Nonmajor Governmental Funds
	Manage- ment Levy	Physical Plant and Equipment Levy	Student Activity	Total Special Revenue Funds	Capital Projects	Debt Service	
REVENUES:							
Local sources:							
Local tax	\$ 49,907	17,423	0	67,330	0	74,861	142,191
Local option sales and service tax	0	0	0	0	158,675	0	158,675
Other	4,042	79	106,830	110,951	3,587	229	114,767
State sources	51	18	0	69	0	76	145
TOTAL REVENUES	54,000	17,520	106,830	178,350	162,262	75,166	415,778
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	25,740	0	0	25,740	0	0	25,740
Other instruction	0	0	113,302	113,302	0	0	113,302
Support services:							
Administration services	6,937	0	0	6,937	0	0	6,937
Operation and maintenance of plant services	11,792	10,005	0	21,797	0	0	21,797
Transportation services	4,475	150	0	4,625	0	0	4,625
Other expenditures:							
Facilities acquisitions	0	5,114	0	5,114	42,428	0	47,542
Long-term debt:							
Principal	0	0	0	0	0	160,000	160,000
Interest and fiscal charges	0	0	0	0	0	8,660	8,660
TOTAL EXPENDITURES	48,944	15,269	113,302	177,515	42,428	168,660	388,603
Excess(deficiency) of revenues over(under) expenditures	5,056	2,251	(6,472)	835	119,834	(93,494)	27,175
OTHER FINANCING SOURCES(USES):							
Transfer in	0	0	0	0		70,000	70,000
Transfer out	0	0	0	0	(70,000)	0	(70,000)
TOTAL OTHER FINANCING SOURCES(USES)	0	0	0	0	(70,000)	70,000	0
Net change in fund balances	5,056	2,251	(6,472)	835	49,834	(23,494)	27,175
FUND BALANCES BEGINNING OF YEAR	31,978	13,543	35,783	81,304	83,294	30,985	195,583
FUND BALANCES END OF YEAR	\$ 37,034	15,794	29,311	82,139	133,128	7,491	222,758

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Speech	\$ (2,927)	102	(2,825)	0
Drama	5,149	1,290	3,742	2,697
Instrumental music	2,639	203	2,001	841
Vocal music	0	454	454	0
Athletics	2,859	35,342	37,556	645
Skate Fund	0	1,352	1,352	0
JH VB tourn.	3,296	1,620	1,856	3,060
JH BB tourn.	2,829	0	2,493	336
Football fund	0	7,371	7,371	0
HS basketball	25	401	293	133
Softball girls	442	0	0	442
Elementary can drive	89	45	0	134
Class of 2007	1,729	0	960	769
Class of 2008	3,298	18,592	21,873	17
Class of 2009	136	15,330	11,313	4,153
Class of 2010	0	51	33	18
Class of 2011	48	35	21	62
Class of 2012	54	156	123	87
Class of 2013	0	80	49	31
Elementary Playground Equipment	0	1,152	0	1,152
Pep club	1,184	1,988	2,833	339
E-Stars	309	402	301	410
Safety patrol	25	0	0	25
Claire McKinney music fund	375	41	0	416
Annual	4,929	8,019	8,659	4,289
Elementary	0	653	0	653
Industrial arts	2,590	1,262	1,861	1,991
Media center	641	45	0	686
Special projects	611	266	250	627
National honor society	447	0	0	447
Pop fund	3,086	7,153	7,081	3,158
Box tops	332	0	62	270
Project class	393	0	186	207
Student council	1,195	3,425	3,404	1,216
Total	\$ 35,783	106,830	113,302	29,311

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
PRIVATE PURPOSE TRUST ACCOUNTS
JUNE 30, 2008

	Claire McKinney Trust	Saunders Scholarship	Joan Hamilton Scholarship	Danielle Wallin Scholarship	ES&C Scholarship	Total
ASSETS						
Cash and pooled investments	\$ 990	22,286	21,668	7,830	1,065	53,839
LIABILITIES						
	0	0	0	0	0	0
NET ASSETS						
Restricted for scholarships	0	20,000	20,000	5,000	0	45,000
Unrestricted	990	2,286	1,668	2,830	1,065	8,839
	<u>\$ 990</u>	<u>22,286</u>	<u>21,668</u>	<u>7,830</u>	<u>1,065</u>	<u>53,839</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 5

ESSEX COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF CHANGES IN
FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST ACCOUNTS
YEAR ENDED JUNE 30, 2008

	Claire McKinney Trust	Saunders Scholarship	Joan Hamilton Scholarship	Danielle Wallin Scholarship	ES&C Scholarship	Total
Additions:						
Gifts and contributions	\$ 0	0	0	0	348	348
Interest	0	1,185	1,149	370	0	2,704
Total additions	0	1,185	1,149	370	348	3,052
Deductions:						
Scholarships	0	1,500	800	0	1,000	3,300
EXCESS (DEFICIENCY) OF ADDITIONS OVER (UNDER) DEDUCTIONS	0	(315)	349	370	(652)	(248)
Balance beginning of year	990	22,601	21,319	7,460	1,717	54,087
Balance end of year	\$ 990	22,286	21,668	7,830	1,065	53,839

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 YEAR ENDED JUNE 30, 2008

	Beginning Balance	Increases	Decreases	Ending Balance
CORE SCHOOL BOOSTER				
Assets:				
Cash and other investments	\$ 242	0	0	242
Liabilities:				
Due to other groups	\$ 242	0	0	242
SUMMER RECREATION				
Assets:				
Cash and other investments	\$ 3,923	114	4,028	9
Liabilities:				
Due to other groups	\$ 3,923	114	4,028	9
WELLNESS PROGRAM				
Assets:				
Cash and other investments	\$ 191	0	0	191
Liabilities:				
Due to other groups	\$ 191	0	0	191
JUST HELP KIDS				
Assets:				
Cash and other investments	\$ 0	1,000	36	964
Liabilities:				
Due to other groups	\$ 0	1,000	36	964
NURSE FUND				
Assets:				
Cash and other investments	\$ 612	1,482	988	1,106
Liabilities:				
Due to other groups	\$ 612	1,482	988	1,106
DEFIBRILLATOR FUND				
Assets:				
Cash and other investments	\$ 1,095	0	177	918
Liabilities:				
Due to other groups	\$ 1,095	0	177	918
TEACHER'S BOOK FUND				
Assets:				
Cash and other investments	\$ 53	0	0	53
Liabilities:				
Due to other groups	\$ 53	0	0	53
TOTAL				
Cash and other investments	\$ 6,116	2,596	5,229	3,483
Liabilities:				
Due to other groups	\$ 6,116	2,596	5,229	3,483

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FIVE YEARS

		Modified Accrual Basis				
		Years Ended June 30				
		2008	2007	2006	2005	2004
Revenues:						
Local sources:						
Local tax	\$	1,055,988	1,082,481	1,088,623	1,059,879	1,162,114
Tuition		172,999	169,071	133,075	121,086	153,736
Other		188,003	216,450	254,312	176,562	143,036
Intermediate sources		2,459	0	0	3,174	0
State sources		1,354,443	1,281,715	1,121,983	1,038,057	1,060,391
Federal sources		79,855	88,941	96,413	95,460	108,576
Total	\$	2,853,747	2,838,658	2,694,406	2,494,218	2,627,853
Expenditures:						
Instruction:						
Regular instruction	\$	1,360,453	1,189,956	1,117,705	1,094,300	1,023,146
Special instruction		189,187	139,147	134,904	138,480	167,814
Other instruction		186,324	247,660	245,153	212,114	184,216
Support services:						
Student services		90,473	82,955	69,713	42,331	24,112
Instructional staff services		59,012	86,405	51,631	63,508	34,772
Administration services		339,246	340,349	303,500	284,193	253,979
Operation and maintenance of plant services		208,738	213,757	184,159	155,805	139,977
Transportation services		109,306	114,733	94,646	77,486	97,851
Other expenditures:						
Facilities acquisition		47,542	71,672	154,069	117,703	38,705
Long-term debt:						
Principal		160,000	160,000	155,000	170,127	154,251
Interest and other charges		8,660	13,140	16,937	21,394	24,215
AEA flowthrough		87,568	84,149	74,390	78,350	73,674
Total	\$	2,846,509	2,743,923	2,601,807	2,455,791	2,216,712

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the
Essex Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Essex Community School District of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 2, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Essex Community School District internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Essex Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Essex Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Essex Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Essex Community School District's financial statements that is more than inconsequential will not be prevented or detected by Essex Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Essex Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-08 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Essex Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Essex Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Essex Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Essex Community School District and other parties to whom Essex Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Essex Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

March 2, 2009

ESSEX COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

- I-A-08 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipt listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We have given the entire responsibility for Purchase Orders to a different person than the business manager. We have started having the secretaries count and deposit money rather than have the business manager deal with most cash. We have started having all cash from gate fees and concessions dropped at the bank for them to count rather than having the business manager work with those cash amounts. However, it is impossible within our budget to hire more than one person in the business office.

Conclusion - Response accepted.

- I-B-08 Pre-numbered Receipts - We noted during our audit that the District uses receipts, however the receipts being used are not pre-numbered.

Recommendation - Better internal controls are achieved if the District uses pre-numbered receipts, and reconciles the receipts to deposits and revenues posted when performing bank reconciliations. The District should review their procedures to ensure that internal control processes are being utilized. We also recommend that the District utilize three part pre-numbered receipt books.

Response - We have purchased numbered receipts.

Conclusion - Response accepted.

- I-C-08 Commodity Pricing - We noted during our audit of the Enterprise, School Nutrition Fund that the District did not price out the commodity inventory using the correct values at the end of the year.

Recommendation - The District should review procedures in place for calculation of commodity inventory prices. The State of Iowa provides a price guide listing of values to be used in the calculation. The District needs to use the correct price values in calculating the inventory value at year end.

Response - We will consult the State of Iowa and use the correct commodity inventory prices at the end of the year.

Conclusion - Response accepted.

I-D-08 Supporting Documents for Meal Reimbursements - It was noted during our audit, an instance of a meal reimbursement which lacked a detailed receipt for supporting documentation.

Recommendation - The District has an employee travel compensation policy in place which states that for actual and necessary expenses, a detailed receipt, other than a credit card receipt, must be provided for reimbursement. The District should review procedures in place with personnel to ensure the proper detailed documentation will be available with paid meal reimbursements.

Response - We are being more diligent about keeping the correct receipts.

Conclusion - Response accepted.

ESSEX COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part II: Other Findings Related to Required Statutory Reporting

- II-A-08 Certified Budget - District disbursements for the year ended June 30, 2008, exceeded the amount budgeted in the non instructional programs and other expenditures areas.

Recommendation-The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will monitor expenses to try to avoid exceeding budgeted amounts.

Conclusion - Response accepted.

- II-B-08 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-08 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-08 Business Transactions - No business transactions between the District and District officials were noted.

- II-E-08 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-08 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - The District will take the proper steps in the future to ensure that minutes are submitted timely to be published. The District has started to keep a record of when minutes are emailed to the newspaper.

Conclusion - Response accepted.

- II-G-08 Certified Enrollment - We noted that the number of basic resident student reported to the Iowa Department of Education on line 1 of the Certified Enrollment Certification Form for October 2007 was overstated by 18 students.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management.

Conclusion - Response accepted.

II-H-08 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-08 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.